FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number:	
Bill Version:	**CS HB 337 (RES) v R**
() Publish Date:	

Identifier (file name):	CSHB337(RES)-REV-TAX-03-29-10	Dept. Affected:	Revenue
Title	Oil and Gas Tax Adjustements	RDU	Taxation and Treasury
		Component	Tax Division
Sponsor	Rules at the Request of the Governor		
Requester	House Resources Committee	Component Number	2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2011**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ( )	***	***	***	***	***	***	***

***** See Analysis Section for Additional Information *****

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2010) cost: ***

POSITIONS

Full-time	**0.0**	0.00	0	0	0	0	0
Part-time							
Temporary							

ANALYSIS: *(Attach a separate page if necessary)*

See Attached.

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Division	Tax Division	Date/Time	03-29-10; 12:16pm
Approved by:	Ginger Blaisdell, Director	Date	03-29-10; 12:21pm
	Administrative Services Division		

(Revised 11/6/2009 OMB)

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STATE OF ALASKA **BILL NO.** CS HB 337 (RES) v R
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ANALYSIS CONTINUATION

Bill Language:
This bill makes four refinements to Alaska's oil and gas production tax. The refinements and the revenue impact of each are discussed below:

1. Increased credits for well related expenditures: This bill would modify AS 43.55.025 to allow a 30 percent credit against production tax for exploratory well expenditures and most development well expenditures. For wells more that 25 miles outside of existing units (or more than 10 miles outside of Cook Inlet units) the credit is 40 percent of exploratory well expenditures. These credits would also be an increase in credits for well related expenditures. Currently, companies are allowed a 20 percent credit for well related qualified capital expenditures under the provisions of AS 43.55.023. There are no current provisions for credits against operating expenditures and this bill would extend the 30% credit to well related operating expenditures as well as capital expenditures. This provision would take effect July 1, 2010.

Under current projected spending and production levels, revenues would be estimated to be reduced by $325 million in FY 2011, $335 million in FY 2012, and $350 million in FY 2013-2016. Latest revision expands the scope of expenditures eligible for the credit to include stratigraphic and injection wells, and thus, the reduction in revenues will be slightly higher. However, the Department of Revenue provides an indeterminant fiscal impact to revenues because the new incentives will likely spur higher spending levels on development activity, which would result in more credits being earned, but would also be expected to increase production, thus providing an offsetting increase in revenue.

2. Removing reinvestment requirement for state purchase of capital credits: For companies applying for state purchase of capital credits, this bill would remove the requirement that the companies reinvest an amount equal to the amount of the credit purchased within 24 months after applying for a credit certificate. This provision would take effect July 1, 2010.

This provision is expected to be revenue neutral as the credits will reduce revenue whether the state purchases the credits or other companies purchase and subsequently apply the credits against a tax liability.

3. Capital credits no longer required to be spread over two years: Producers and explorers receive a capital expenditure credit in the amount of 20 percent of the qualified capital expenditure, 25% of a loss carryforrward, and up to 40% of an exploration expenditure. This bill would remove the provision that no more than half of the tax credit may be applied for in a single calendar year. As a result, the entirety of credits could be applied in the year they are earned. This provision is retroactive to January 1, 2010.

The calculation of the revenue impact for this provision is difficult for two reasons: (1) the timing of the revenue impact will depend upon when the bill is signed into law; and (2) the amount the state may potentially be expected to pay to purchase credits is conditioned in part on removing the reinvestment requirement discussed in #2 above, and the timing of the payment will depend on whether companies will immediately seek reimbursement for their credits.

We assume for this provision a worse-case scenario where all credits held by companies with production tax liabilities are used in FY 2010 or FY 2011. This would cost the state approximately $225 million in reduced taxes between the two years.

For companies that are holding credit certificates and are not expected to incur a tax liability in FY 2010 or FY 2011, we estimate an additional liability of up to $150 million over previous expectations for the two fiscal years. These impacts could spill into FY 2012, should companies delay seeking reimbursement.

Beyond FY 2012, revenue impacts are expected to be negligible.

4. Interest waived for changes in tax liability as a result of to retroactive regulations changes: Following adoption of retroactive regulations to the oil and gas production tax under AS 43.55, the Department of Revenue is required to determine whether the retroactive application of the regulation caused an overpayment or underpayment of the amount due in tax. For an underpayment, interest is waived as long as the underpayment was due to the regulation and the producer made a good faith estimation and payment of its tax obligation under regulations in place when the payment was due. For an overpayment, interest does not accrue until either the first day of the second month following the regulation taking effect, or 90 days after the Department receives an amended annual production tax return with request for refund. The interest provisions are retroactive to February 2007. At this time it is uncertain whether there would be any revenue impact from this change, since it is unclear whether there was any underpayment or overpayment due to the retroactive regulations. The Department of Revenue does not include interest payments in our revenue projections, therefore this change would not affect our revenue forecast.

*** We cannot currently make a determination of the revenue impacts of the bill. For this reason, asterisks are include in our revenue estimates for this fiscal note.